

# FDIC State Profile

Winter 2004

## New Hampshire

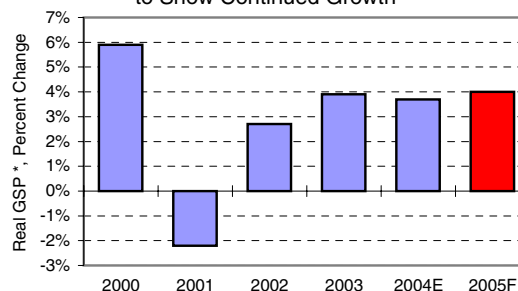
National real gross domestic product (GDP) is forecasted to moderate in 2005.

- National real GDP during 2004 is currently forecasted by Economy.com to grow about 4.0 percent when measured from fourth quarter 2003 to fourth quarter 2004. This would be slightly below the 4.4 percent growth posted for 2003, but well ahead of the 2.3 percent growth in 2002 and the 0.2 percent growth experienced during the recession year of 2001.
- Consensus forecasts project 2005 real GDP growth to moderate to about 3.0 percent when measured on this basis.

New Hampshire, along with other states in New England, benefited from growth in the national economy during 2004. The 2005 forecast expects growth to continue.

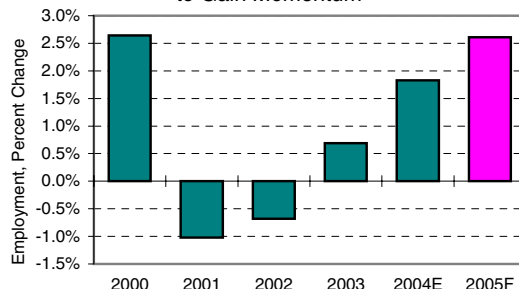
- Growth in gross state product for New Hampshire is estimated to continue at or near the 4.0 percent pace achieved since 2003 according to a regional growth forecast prepared by the New England Economic Partnership (See Chart 1).
- Payroll employment growth will likely continue accelerating through next year (See Chart 2). Employment growth has lagged the turnaround in output, as it generally does, because businesses are reluctant to hire during the initial phases of an economic recovery. Both labor demand and the rate of employment growth should improve
- Due to large capital investment requirements of many key industries in New England, the lag in job growth has been more pronounced here. In addition, slow labor force growth and relatively high costs of doing business have also contributed to a more muted employment growth relative to the national average.
- In New Hampshire, cyclical swings tend to be more pronounced than the region as a whole, even as its dynamism leads to growth in employment and output over time that outperforms other states within the region.

Chart 1: Real Output in New Hampshire is Forecast to Show Continued Growth



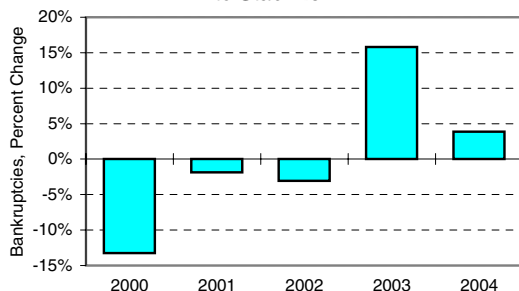
\* Gross State Product, Q4 to Q4  
Source: New England Economic Partnership and Economy.com

Chart 2: Payroll Employment is Forecast to Gain Momentum



Source: New England Economic Partnership and Economy.com (Q4 to Q4 data)

Chart 3: Bankruptcy Filings Are Beginning to Stabilize



Source: Administrative Office of the U.S. Courts (Q2 to Q2 data)

## State Profile

### Better economic times in New Hampshire imply fewer bankruptcies.

- The lack of payroll growth during the years 2001-2002 and weak growth in 2003 contributed to the rise in bankruptcies through 2003 (See Chart 3).
- The acceleration in payroll employment growth this year and expectations for next year suggests bankruptcies are likely to decline in the future. The small increase in bankruptcies observed during the four quarters ending in the second quarter of 2004 may well foreshadow a drop-off in bankruptcies during 2004 and through 2005.

### New Hampshire's small institutions report an increase in profits as net interest margins (NIM) improve.

- The 0.84 percent median return on assets (ROA) by New Hampshire's small insured institutions (assets less than \$1 billion) as of September 30, 2004 was substantially below the 1.05 percent reported for similar banks across the country. Although the longer term trend is declining, ROA improved slightly in the third quarter of 2004 as operating efficiencies and NIM improved (See Chart 4). Increased yields on earning assets accounted for the boost to NIM as funding costs remained steady and low, but the high concentrations of mortgage loans continues to suppress profitability compared to other small institutions nationally.
- Residential mortgage loans account for 52 percent of total loans in New Hampshire's small institutions compared to 32 percent of total loans in the small institutions nationwide. As interest rates dropped in the last several years, borrowers refinanced into lower, fixed-rate loans. These loans will continue to affect profitability as insured institutions will not have the ability to reprice these assets as funding costs increase when interest rates rise.

### Number of banking offices is declining in New Hampshire.

- Insured banking institutions operated 415 offices in New Hampshire as of June 30, 2004. Industry consolidation since 2001 has contributed to a slight decline of 14 branch locations in the state (See Chart 5).
- Out-of-state institutions controlled 29 percent of total deposits in New Hampshire as of June 30, 2004. Prior to 1996, virtually no out-of-state institutions controlled deposits in the state.

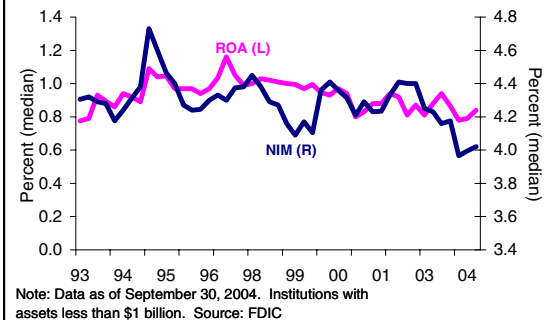
### Loan growth is strong in New Hampshire as insured institutions expand commercial real estate loan portfolios.

- New Hampshire's insured institutions continued to experience strong loan growth through the third quarter of 2004. The median growth rate for total loans was just over 12 percent as of September 30, 2004. In the current

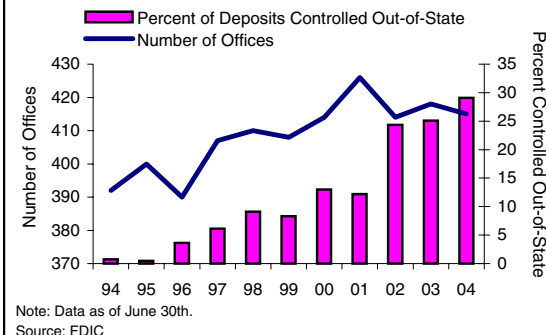
low interest rate environment, growth of single family residential mortgage loans remains relatively strong with a median growth rate of nine percent as of September 30, 2004. Construction loan growth continued to be robust with a median growth rate of 17 percent during the same time frame.

- Commercial and industrial (C&I) loan growth and commercial real estate (CRE) loan growth both slowed in the third quarter (See Chart 6).

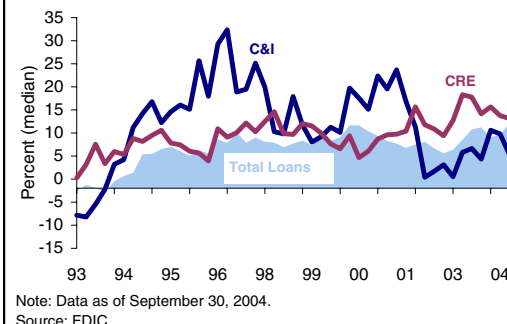
**Chart 4: Earnings Rise Slightly in 2004 as Margins Posted an Increase in the Small Institutions**



**Chart 5: The Number of Banking Offices Declines as Out-of-State Ownership Increases**



**Chart 6: Insured Institutions in New Hampshire Post Strong Loan Growth**



## New Hampshire at a Glance

<b>General Information</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
Institutions (#)	29	32	32	34	35
Total Assets (in thousands)	29,109,277	29,179,696	29,167,162	35,676,142	31,705,348
New Institutions (# < 3 years)	0	0	0	2	2
New Institutions (# < 9 years)	2	3	3	4	5
<b>Capital</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
Tier 1 Leverage (median)	8.79	8.52	9.18	8.73	8.43
<b>Asset Quality</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
Past-Due and Nonaccrual (median %)	0.72%	0.83%	1.09%	1.24%	1.08%
Past-Due and Nonaccrual >= 5%	0	1	1	3	1
ALLL/Total Loans (median %)	0.99%	1.07%	1.13%	1.16%	1.30%
ALLL/Noncurrent Loans (median multiple)	3.75	3.26	3.14	2.42	3.52
Net Loan Losses/Loans (aggregate)	3.51%	5.58%	14.23%	6.02%	4.55%
<b>Earnings (Year-to-Date Annualized)</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
Unprofitable Institutions (#)	0	0	0	2	3
Percent Unprofitable	0.00%	0.00%	0.00%	5.88%	8.57%
Return on Assets (median %)	0.85	0.94	1.00	0.88	1.01
25th Percentile	0.65	0.69	0.77	0.65	0.70
Net Interest Margin (median %)	4.02%	4.15%	4.39%	4.17%	4.25%
Yield on Earning Assets (median)	5.30%	5.68%	6.63%	7.74%	7.90%
Cost of Funding Earning Assets (median)	1.28%	1.61%	2.29%	3.66%	3.76%
Provisions to Avg. Assets (median)	0.03%	0.09%	0.10%	0.08%	0.10%
Noninterest Income to Avg. Assets (median)	0.59%	0.68%	0.54%	0.55%	0.45%
Overhead to Avg. Assets (median)	3.03%	3.01%	3.03%	3.11%	3.14%
<b>Liquidity/Sensitivity</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
Loans to Deposits (median %)	84.76%	77.06%	77.22%	80.04%	83.18%
Loans to Assets (median %)	69.10%	65.38%	63.93%	68.15%	68.72%
Brokered Deposits (# of Institutions)	6	5	1	1	3
Bro. Deps./Assets (median for above inst.)	1.73%	3.72%	47.79%	50.29%	1.58%
Noncore Funding to Assets (median)	19.60%	17.62%	15.64%	15.85%	13.08%
Core Funding to Assets (median)	69.45%	70.57%	71.47%	71.16%	72.59%
<b>Bank Class</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
State Nonmember	8	9	9	9	10
National	3	5	5	6	6
State Member	1	1	0	0	0
S&L	1	1	1	1	1
Savings Bank	5	5	5	6	6
Stock and Mutual SB	11	11	12	12	12
<b>MSA Distribution</b>	<b># of Inst.</b>	<b>Assets</b>	<b>% Inst.</b>	<b>% Assets</b>	
No MSA	21	18,983,842	72.41%	65.22%	
Portsmouth-Rochester NH-ME PMSA	4	1,057,918	13.79%	3.63%	
Manchester NH PMSA	2	8,457,403	6.90%	29.05%	
Lawrence MA-NH PMSA	2	610,114	6.90%	2.10%	